

FACULTY OF MANAGEMENT AND ADMINISTRATION

MMS504 ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT

END OF FIRST SEMESTER EXAMINATIONS

NOVEMBER 2016

LECTURER: T MASESE

DURATION: 3 HRS

INSTRUCTIONS

Answer Question One and any other THREE questions in this paper

Total possible mark is 100

Start each question on a new page in your answer Booklet.

The marks allocated to each question are shown at the end of the section.

Show all your workings.

Credit will be awarded for logical, systematic and neat presentations.

Question ONE

Read the following case study and answer the questions below the case

For Sale: California Ski Area ...

Rick Metcalf grew up skiing Mount Waterman, an 8,000-foot high mountain about 45 miles northeast of Los Angeles in the San Gabriel Mountains with 235 skiable acres. After 60 years of operation, the ski area was no longer financially viable and closed in 2002. The forest service was going to remove all the equipment from the hill and restore this historic mountain back to the National Forest. Metcalf immediately contacted four Waterman enthusiasts, Craig Stewart, Brien Metcalf, Robin Hoffner, and Roberto Martinez.

Metcalf had since become a mortgage broker in San Diego, but memories of days on those slopes led him to purchase it in 2006. He pumped \$1 million into renovations over the next 18 months, including upgrades to three chairlifts and the lodge. Waterman reopened in February 2008. But after only two seasons of operation, Metcalf has decided the mountain needs more improvements than he is willing to fund—specifically, snowmaking equipment.

The first full season under Metcalf's ownership, the lifts operated only on weekends—a total of 23 ski days. An average of 125 customers per day generated about \$143,000 in ticket sales and concessions. This summer, the chairlifts also opened for hikers and mountain bikers. Day passes cost \$10 for hikers and \$25 for bikers.

The mountain has 27 groomed trails with a thousand feet of vertical drop. Runs include blue, green, and black (beginner to expert). The three chairlifts are doubles. The 2,200-square-foot lodge includes a snack-bar-style restaurant with a bar and fireplace. A rental shop is also included to augment revenue. Metcalf is not happy about selling. "It's not a real difficult business model to operate," he says. "But it's definitely not a get-rich kind of thing."

Business at a glance:

- Year founded—1942 (lift ticket price of \$2.50/day)
- Open season—mid-December/mid-March
- Annual snowfall—180 inches/average
- Elevation at summit—8,030 feet
- Vertical drop—1,030 feet
- Number of runs—27
- Number of lifts—3
- Lift ticket—\$50/day
- 2008–2009 revenue—\$143,493
- Operating profit—\$90,411
- Selling price—\$1.65 million

PRICE BASIS: The price is based on improvements plus potential for growth. Ski facilities historically sell for 6 to 10 times EBITDA (earnings before interest, taxes, depreciation, and amortization), says Michael Berry, president of the National Ski Areas Association. That makes Mount Waterman's price, at 18 times operating profit, seem high.

UP SIDES: Mount Waterman is about an hour's drive from Los Angeles County and its 10 million people. Stepped-up marketing could attract many more skiers. The mountain can handle 1,500 skiers a day (many more than the 125/day average).

DOWN SIDES: It would cost several million dollars to install snowmaking equipment, considered a must in today's industry. The small resort has not come close to its

potential.

BOTTOM LINE: Mount Waterman is a turnkey ski mountain at an affordable price. To tap its full potential, though, a new owner should be prepared to invest in snowmaking and marketing.

Questions

a. What would be advantages and disadvantages of buying this existing business (8 marks)

b. To successfully analyze the value of any business, you should have enough experience to recognize specific details that are most relevant in that type of business. What are major quantitative and quantitative issues you should consider when doing a due diligence in buying an existing business like the one in the case above (9 marks)

c. What methods would you use to evaluate/value the above business (8 marks)

Question Two

- a. For most new ventures, a business plan is a dual purpose document used both inside and outside the firm. Define a business plan and explain its dual purpose. Discuss the 3 primary reasons for writing a business plan (6 marks)
- b. Who reads a business plan and what are they looking for? (3 marks)
- c. What is an executive summary and why, despite it being one of the first things appearing first in the business plan, should it be written last? Why is it considered the most important section of a business plan (4 marks)
- d. Samantha is thinking about opening a high-end fashion boutique in the affluent suburb of Murambi in Mutare. She contacts you wanting advice on how she can write a business plan. Advice Samantha on what sections she should include in her business plan briefly explaining to her what should be contained in each section of her plan (12 marks)

Question Three

a. What is franchising? How does it differ from the other forms of business ownership? (3 marks)

b. Discuss the three main forms of franchising (8 marks)

c. What are the principal advantages and disadvantages of buying a franchise? (7 marks)

d. Briefly explain the advantages and disadvantages of franchising as a method of business expansion (7 marks)

Question Four

- a. Buying an existing business may be considered low-hanging fruit for an entrepreneur but the process may be fraught with pit-falls if not handled with proper due diligence. Briefly explain the advantages and disadvantages of buying an existing business (8 marks)
- What are some of the quantitative and non-quantitative issues you would consider when doing due diligence for the purchase of an existing business (12 marks)
- c. Explain the three main methods of valuing a business on sale (5 marks)

Question Five

- With the aid of the three circle model explain the main relationships in a family business and how the contrary dynamics of business and family systems create tension in the family business (6 marks)
- b. Lank (2000:15) lists special problems of family businesses. Briefly explain the major problems that characterize family businesses (8 marks)
- Commitment to a family business is driven by a number of factors. Explain the four main basis for one's commitment to join a family business (6 marks)
- d. Business ethics, practiced throughout the deepest layers of a company, become the heart and soul of the company's culture and can mean the difference between success and failure. Explain ways to incorporate ethics and integrity into business practices (6 marks)

Question Six

- a. Briefly explain what is meant by the following terms; business opportunity, opportunity recognition and entrepreneurial alertness? (3 marks)
- Briefly explain what is meant by social entrepreneurship and explain the main forms of social ventures (4 marks)
- With the aid of suitable examples explain how the following can create business opportunities;
 - i. Solving a problem (3 marks)
 - Observing emerging trends in economic forces, social forces, technological advances, political action and regulatory changes (4 marks)
 - iii. Extensive travelling (2 marks)
 - iv. A good understanding of economics and the economy (2 marks)
- d. Briefly explain the 3 categories of types of start-up ideas (3 marks)
- e. Explain the concepts of creativity, innovation and invention. Outline the importance of creativity and innovation to an entrepreneur (4 marks)

Question Seven

- One of the main aspects ensuring the survival of family business is succession. What
 are some of the barriers to good succession in family businesses (6 marks)
- b. Briefly explain the following concepts:
 - i. Corporate venturing
 - ii. Necessity based entrepreneurship
 - iii. Nascent entrepreneurial activity
 - iv. Total early-stage entrepreneurial activity
 - v. Locus of control
- Briefly explain some of the business challenges that are unique to women entrepreneurs (5 marks)
- d. Entrepreneurs enter into business for a number of reasons. Discuss the major benefits owning a business (6 marks)
- e. A small business owner must have a number of attributes and skills in order to properly plan his business and make it successful during the first hard years of its operation. Discuss any 6 characteristics that are common among entrepreneurs (6 marks)

END OF PAPER